



WEEKLY ECONOMIC DIGEST

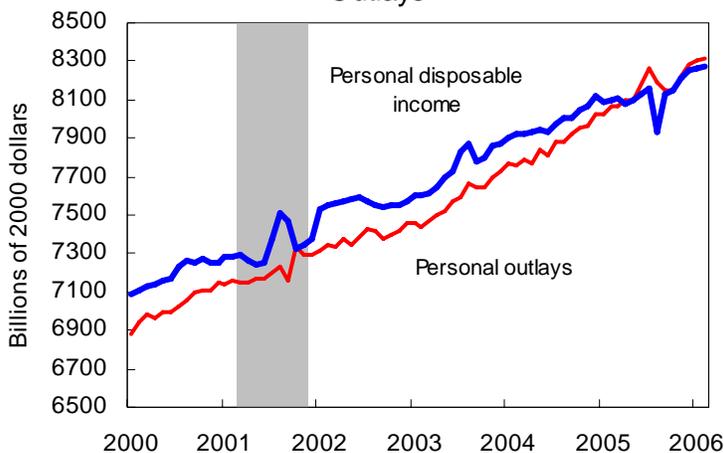


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

April 4, 2006

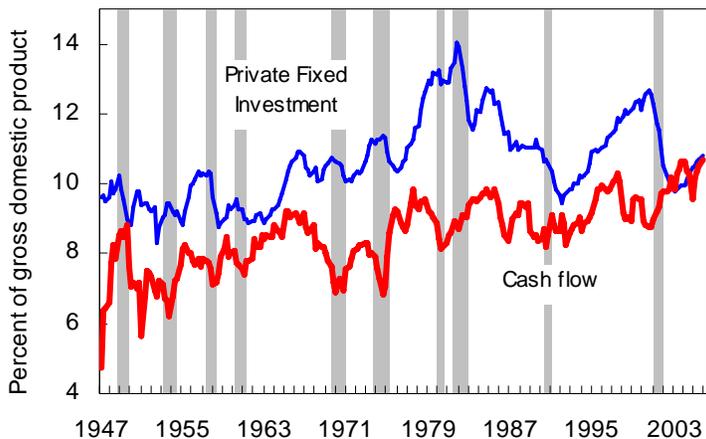
Growth Is Expected to Pick Up but Will Wages and Investment Follow?

Real Disposable Personal Income and Outlays



Source: Bureau of Economic Analysis, U.S. Department of Commerce and the National Bureau of Economic Research.

Private Nonresidential Investment and Corporate Cash Flow



Source: Bureau of Economic Analysis, U.S. Department of Commerce and the National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **Fourth-quarter growth remained anemic in the latest revision.** Real (inflation-adjusted) gross domestic product (GDP) grew at a 1.7 percent annual rate in the fourth quarter, according to the latest estimate from the Commerce Department. That is just 0.1 percentage point faster than the preliminary estimate. However, forecasters see evidence of a rebound, with the Blue Chip Consensus predicting that growth in real GDP will be 4.7 percent at an annual rate in the first quarter.

- **Consumer spending edged up in February.** Real (inflation-adjusted) personal consumption expenditures grew by 0.1 percent in February after growing by 0.3 percent in January. Despite the slowing growth rate, the level of consumer expenditures has been high so far this year, and that spending is an important reason for the expected strengthening in overall economic growth. Although it grew 0.2 percent in February, disposable personal income has not caught up to spending and the personal saving rate remains negative (see top chart).

- **Corporate profits surged in the fourth quarter.** Corporate profits from current production rebounded from hurricane-related losses in the third quarter and grew at a 71.1 percent annual rate in the fourth quarter. Profits in the fourth quarter of 2005 were 21.3 percent higher than they were a year earlier. By contrast, labor compensation (wages, salaries, and benefits) was only 5.3 percent above its level a year earlier.

- **Corporate cash flow has not yet translated into commensurate business investment.** The strong growth in corporate cash flow accompanying profit growth in 2005 has not yet translated into business investment the way it did in previous economic recoveries (see bottom chart). Over the postwar period, tangible investments in plant and equipment have equaled about 125 percent of cash flow (after-tax retained earnings plus depreciation). In this recovery, however, investment has barely exceeded cash flow.

The Economy at a Glance	Mar	Feb	Jan	Dec	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	n.a.	1.7	4.1	3.3	3.5	4.2
Industrial Production (% growth)	n.a.	8.7	-3.5	12.7	n.a.	5.3	1.4	1.6	3.3	4.1
Capacity Utilization (level, %)	n.a.	81.2	80.8	81.2	n.a.	80.5	79.8	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)*	n.a.	4.8	4.7	4.9	n.a.	5.0	5.0	5.1	5.1	5.5
Housing Starts (thousands)	n.a.	2120	2303	1989	n.a.	2059	2101	2044	2072	1950
Real Disposable Personal Income (% growth)	n.a.	2.4	1.2	6.2	n.a.	6.7	-1.4	0.2	1.4	3.4
Retail Sales (% growth)	n.a.	-16.1	42.2	5.1	n.a.	1.9	8.5	9.2	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-0.5	-0.5	-0.3	n.a.	-0.2	-1.6	-0.2	-0.4	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	1.2	8.7	-1.2	n.a.	3.2	5.5	3.7	3.4	2.7
Core CPI-U Inflation (% growth)	n.a.	1.2	2.4	1.2	n.a.	2.4	1.6	2.0	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	3.2	3.2	2.8	2.8	3.2	3.9
Output per Hour (% growth)	—	—	—	—	n.a.	-0.5	4.2	2.4	2.9	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.51	4.43	4.24	3.89	4.39	3.83	3.36	2.86	3.15	1.37
T-note Rate, 10-years (level, %)	4.72	4.57	4.42	4.47	4.57	4.49	4.21	4.16	4.29	4.27
Federal Funds Rate (level, %)	4.59	4.49	4.29	4.16	4.46	3.98	3.46	2.94	3.22	1.35
Dow Jones Industrial Avg (index level)	11144	10971	10872	10828	10996	10616	10544	10382	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **The Employment Situation: March 2006** [Release: Friday, April 7]
- **Consumer Credit: February 2006** [Release: Friday, April 7]
- **Monthly Wholesale Trade: February 2006** [Release: Friday, April 7]